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14 July 1987

MEMORANDUM FOR: Distribution

SUBJECT: Inter-Agency Meeting

TYPE OF MEETING	EPC
DATE	15 July 1987
TIME	1100
PLACE	Roosevelt Room
CHAIRER BY	Powell
ATTENDEE(S) (probable)	NIO/ECON
SUBJECT/AGENDA	EC Pasta
	Canada Free Trade Agreement
PAPERS EXPECTED	COB 14 July
INFO RECEIVED	Per Cabinet Affairs, 0930

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*Deane Hoffmann  
to attend*

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The Director of Central Intelligence  
Washington, D.C. 20505

National Intelligence Council

NIC 02928-87  
15 July 1987

MEMORANDUM FOR THE RECORD

*Qm*  
SUBJECT: EPC Meeting 15 July on Taiwan GSP, EC Pasta, Canadian Free Trade

1. Secretary Baker asked the EPC to approve removal of GSP status for Taiwan should Taiwan fail to appreciate its currency sufficiently. Baker would telegraph the decision to Taiwan this week and send formal notification to Congress on Monday, beginning a required 60-day period for consideration. The goal is to lever Taiwan with the threat rather than to implement the GSP removal. Weinberger asked a day or two to check with his people since the item was not on the agenda. Baker clearly wants to push this through despite possible objections.

2. On pasta, the EPC agreed to extend the deadline until two weeks from Monday and to schedule a TPRG to discuss possible retaliation. Ambassador Yeutter wants an offset of roughly half of the subsidy vice the 20 percent currently offered by the EC.

3 Peter Murphy gave the usual dismal rundown on the free trade discussions. He hopes to get a bracketed text by 15 August and a full text by 1 September.



Deane E. Hoffmann

Attachments:

- A. US-EC Pasta Dispute
- B. US-Canada Negotiations

cc: C/NIC (w/o atts)  
D/DCI-DDCI Exec Staff (w/atts)  
NIO/EUR (w/o atts)  
NIO/OEA (w/o atts)  
D/EURA (w/o atts)  
D/OEA (w/o atts)  
D/OGI (w/atts)  
A/NIO/Econ (w/o atts)



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OFFICE OF THE UNITED STATES  
TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON  
20506  
July 13, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: THE TRADE POLICY REVIEW GROUP  
SUBJECT: U.S.-EC PASTA DISPUTE

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Issue

Should the U.S. establish a deadline for resolving the U.S.-EC dispute, and, absent a resolution by that deadline, respond with retaliatory measures?

Objectives

- o To gain leverage to reach agreement with the EC on terms acceptable to the USG and the U.S. pasta industry.
- o To provide the domestic industry with effective relief from the unfair subsidization of EC pasta exports to the U.S.
- o To demonstrate that the Administration remains in control of the negotiating process, thereby obviating the need for legislated action against EC pasta exports.
- o To provide Congress with further evidence that Presidential discretion and the absence of mandatory deadlines are essential to the successful resolution of Section 301 cases.

Background

In 1981, the U.S. pasta industry filed a Section 301 petition alleging that the EC's export refunds on pasta are GATT-illegal. In 1983, the USG won a GATT panel decision that the EC's export refunds are illegal subsidies. The EC blocked adoption of that decision. When the EC subsequently also blocked the GATT panel decision on citrus, the President retaliated against the EC's citrus measures by imposing penalty duties on pasta imports in November 1985.

As part of the August 1986 agreement resolving the citrus dispute, the U.S. and the EC agreed to "proceed in good faith" in seeking a "prompt solution" to their dispute over pasta refunds. The citrus agreement provided that if no mutually satisfactory solution were found by the later of:

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2

(1) U.S. Congressional approval of certain duty reductions included in the citrus agreement, or

(2) July 1, 1987,

then either party might, at its discretion, choose not to put into effect and/or not to bind in the GATT, the import measures in the Annex (i.e., the reciprocal tariff concessions on citrus and other products). The agreement further provided that in the interim the U.S. would not retaliate against EC pasta. Furthermore, a side letter to the agreement states that the EC would move to terminate the Agreement if the U.S. Government applied new trade restrictions on pasta.

The citrus agreement also provided for the rescinding of retaliatory tariffs imposed on EC pasta exports by the U.S. in November 1985 when earlier negotiations broke down. These tariffs were lifted in late-August at the same time the EC lifted its counter measures on U.S. lemons and walnuts.

At the time the deadlines for concluding negotiations on pasta were set, it was contemplated (but not written into the agreement) that Congressional approval of the tariff concessions would occur well before July 1, so that the latter date would have been an outside deadline for conclusion of the negotiations. It is the U.S. view that an understanding existed between the negotiators that a "prompt solution" implied concluding negotiations by July 1, and we communicated that view to the U.S. industry and Congress. Ambassador Yeutter also warned the EC in a June 15, 1987 letter that we had virtually no room to allow negotiations to slip past July 1.

The U.S. and the EC have been actively engaged in negotiations on pasta since last December. However, the latest round of negotiations in Washington July 7-9 failed to close a large gap in the two sides' respective positions on the two principal issues under negotiation: the size of the reduction in the EC's export refund; and the amount of EC exports to take place under a subsidy-free inward processing system. The EC has offered a 20 percent cut in its export refund which we have said is "not even in the ballpark." The EC has offered to set a target of 30 percent of their pasta exports to take place through inward processing which we have said is too low. Differences also remain on other issues of secondary importance.

#### Congressional Concern

Congressional interest in the pasta negotiation has been keen. To date, five Congressmen and twenty-six Senators have written the USTR, including representatives of pasta-producing districts (such as Heinz, Moynihan, Guarini) as well as members of the

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3

trade subcommittees. This latter group would view a weak settlement or a further prolongation of negotiations as proof that the President's authority should be curtailed and/or that retaliation should be mandatory in section 301 cases. Most recently, Chairman Rostenkowski wrote EC Commissioner Willy De Clercq to emphasize the importance of reaching an agreement by July 1.

In addition, the Senate version of the trade bill includes a provision authored by Senator Heinz that would require the imposition of a tariff equal to the full amount of the EC's refund if no settlement fully conforming with the GATT panel ruling were reached by July 1.

We believe Congress and the U.S. industry can accept a settlement that falls short of fully offsetting or eliminating the EC's export refunds. However, in the absence of an agreement or strong action by the Administration, it will be difficult or impossible to avoid a pasta retaliation provision in the Senate legislation. Moreover, failure to reach an adequate settlement quickly in this case would clearly serve as ammunition for those calling for general limits on Presidential discretion in the omnibus trade legislation.

#### DECISION

##### OPTION 1

Establish a deadline of July 31 for completing negotiations and decide to impose retaliatory measures effective August 1 on EC pasta imported into the U.S. in the event no agreement is reached.

#### Advantages

- o Establishes firm deadline for conclusion of the negotiations.
- o Places additional pressure on the EC to conclude an agreement on terms acceptable to the U.S.
- o Forestalls temporarily pressure for a legislated solution.
- o Neutralizes the competitive advantage conveyed by the EC's subsidy, in the event no agreement is reached.

#### Disadvantages

- o May harden the EC's position in light of past aversion to negotiating under "threat".
- o In the event the U.S. does impose retaliatory measures, the EC may decide to terminate the citrus agreement.

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4

OPTION 2

Continue negotiations without establishing a deadline for their conclusion, and without announcing retaliatory measures to be imposed in the event negotiations fail to produce an agreement.

Advantages

- o Eliminates risk of antagonizing the EC, and possible termination of the citrus agreement.

Disadvantages

- o Reduces the pressure on the EC to reach an agreement.
- o Prolongs absence of relief for the U.S. pasta industry.
- o Increases likelihood of Congressional action.
- o Sends the wrong signal to the Congress on the question of establishing time limits for action in Section 301 cases.

Recommendation

That the EPC decide in favor of option 1 and mandate the TPRG to decide the specific nature of the retaliatory measures to be imposed. Possible alternatives that should be considered include:

1. a prohibitive tariff of 200 percent imposed with the intent to halt imports of EC pasta;
2. a duty to offset the EC export refund, as proposed in the Heinz language;
3. a duty equivalent to 50 percent of the size of the EC export refund (the current U.S. position on the refund reduction); and
4. use of EEP funds to target traditional third country markets for EC pasta exports.

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OFFICE OF THE UNITED STATES  
TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON  
20506

July 13, 1987

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: PETER O. MURPHY POM  
SUBJECT: U.S.-CANADA NEGOTIATIONS

At the instruction of the EPC, I presented the U.S. dispute settlement mechanism to Simon Reisman, my counterpart. He acknowledged it that resolved nine out of ten problems, but added that was not enough.

Most of his questions were directed toward determining whether it was an official position of the U.S. Government or a proposal put forward at the negotiating table. I explained that it was a position of the U.S. Government approved by the EPC, which was requested by Prime Minister Mulroney. I also added that I would treat it as a proposal and go back to the EPC if the rest of the package was good enough.

Despite specific warnings, the Presidential letter was leaked to the Canadian press and the Prime Minister repeated his position prior to Venice and sent a letter requesting further U.S. movement on the subject. Further he has had a meeting with the Premiers from all the provinces, and all provinces stayed on board the negotiation, but they also reiterated support for Reisman's initial position on dispute settlement.

Despite receiving less than his initial position, the Canadians are continuing to negotiate and have not begun moves to disengage from the negotiations. We have had three more meetings, the latest being held in Washington July 13 and 14 and another scheduled for Ottawa on July 20. Progress is slow and arduous. Canada has yet to make counterproposals on investment or specific proposals in other areas of significance to us.

Consultations with the Hill and private sector are ongoing. Recently in a meeting between the U.S. advocates for an agreement and their Canadian counterparts, both Senators Bentsen and Danforth came out strongly against any special arrangements for Canada regarding U.S. trade remedy law. As a barometer of the Congressional and Canadians thinking on the larger trade remedies bill, attached is a letter sent by Ambassador Gotlieb.

Attachment

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Canadian Embassy



Ambassade du Canada

1746 Massachusetts Ave., N.W.  
Washington, D.C. 20036

June 22, 1987

The Honourable Robert C. Byrd  
Room 311  
Senate Hart Office Building  
Washington, D.C. 20510

Dear Senator Byrd:

In a few days the Senate will begin consideration of S.490 and other titles that comprise the Senate's Omnibus Trade Bill. I am writing to advise you of my Government's concern that a number of provisions in S.490, if enacted, would jeopardize our common efforts to improve the international trading system, would exacerbate international trade tensions, and would work to the detriment of the United States economy.

Some of the provisions under consideration represent unilateral departures from established international practice and others would contravene U.S. obligations under the General Agreement on Tariffs and Trade.

Of particular concern to Canada are the provisions in S.490 that seek to re-define countervailable subsidies; to impose new and unprecedented rules of origin for steel products; to extend the scope of dumping investigations to third-country trade in input products; to extend the reach of countervailing and anti-dumping laws to government purchases; to expand the use of U.S. agricultural export subsidies; to provide export subsidies to U.S. sugar exporters by extending duty drawbacks for imported raw sugar; to amend Sections 201 and 301 of the Trade Act of 1974 so as to limit severely Presidential discretion and mandate retaliation in certain circumstances, including retaliation with respect to trade in telecommunications; and to impose a uniform fee on all imports in order to fund Trade Adjustment Assistance.

There are a number of other proposals about which we would be extremely concerned should they be included in S.490: unreasonable scofflaw penalties; private right of action in dumping cases; tariff increases; sugar quota reallocation; and steel quotas.

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Enactment of these provisions would result in substantial costs to the U.S. economy. It could lead to the adoption of mirror legislation by your trading partners that would close foreign markets to U.S. exports and prejudice prospects for achieving a more favourable U.S. trade balance. Nor can the possibility of retaliation be excluded.

I recognize the heavy burden that the trade deficit has placed on the U.S. economy. The solution, however, does not lie in restricting trade or adopting measures that would weaken the GATT and lead to escalating trade conflicts. In the post-war period the world economy has prospered through trade liberalization. The experience of the pre-war period was just the opposite and is still bitterly remembered.

The United States has long recognized the value of trade liberalization and has consistently demonstrated constructive leadership in the GATT. Canada and the United States were at the forefront of efforts to launch the Uruguay Round of multilateral trade negotiations. This new Round provides the best prospects for achieving such common objectives as improving disciplines in international trade, extending those disciplines to new areas such as services, intellectual property and investment, as well as dealing with the urgent problems plaguing trade in agriculture products.

If enacted, unilateral departures from established international practice would undermine seriously the effectiveness of the GATT and, perhaps more important, weaken the very process that offers the only real promise for bringing about desired reforms to the international trading system. The rules and practices governing international trade must remain a matter for international negotiation if we are to avoid potential chaos and conflict.

Our two governments are at present engaged in a wide-ranging trade negotiation to liberalize Canada/U.S. trade and to establish new rules to govern that trade. Multilaterally, we are pursuing common objectives in the Uruguay Round. I believe that this is the preferred approach to trade problems. I hope you will agree and will bear this in mind in considering the trade bill now before you.

Yours sincerely,

Original Signed by  
A. E. GOTLIEB  
a signé l'original

Allan Gotlieb  
Ambassador